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Farm Loan Waiver: A Temporary Necessity but Not a Permanent Solution for Farmer's and Agricultural Upliftment in India

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SUMMARY

Farm loans are of the form of the form of either farm loans or investment loans taken from the banks by the farmers for buying farm inputs or agricultural equipments. When there is a poor monsoon or natural calamity, farmers may be unable to repay loans. The rural distress in such situations often prompts States or the Centre to offer relief- reduction or complete waiver of loans. Waivers are usually selective- only certain loan types, categories of farmers or loan sources may qualify. Loan waiver schemes disturb loan and credit discipline for the any financial system. Farmers will turn into willful defaulters as they wait for the next loan waiver scheme, which is bad for economy.The very unpredictable or dangerous situations like draught, wet draught, tsunami, earthquake and COVID – 19 (mahamari) this scheme works and very helpful to the farmers upliftment in this situations. I specially mention here that the situations like above, the cost included in Farm Loan Waiver Scheme is very less, not enough to the farmer's welfare. So, please attention towards these situations when farmers and their farm situation become very critical and it may affect their long term calculations and force to them take loans from the banks or any other available sources. Loan waiver as termed by many economists is only a temporary or seasonal relief and the cycle of woes get repeated again for the farmers unless some long-term measures put in place. In the longer run, strengthening the repayments capacity of the farmers by improving and stabilizing their income is the only way to keep them out of distress. "The aim should be to make them financially robust so that they do not depend on the loans."

INTRODUCTION

Farm loans are of the form of the form of either farm loans or investment loans taken from the banks by the farmers for buying farm inputs or agricultural equipments. During adverse climatic conditions which are unfavorable for farming in the region, farmers are unable to get desired productivity which makes them unable to repay the loans taken by them from the banks. This farm distress results in prompting states or centre to provide relief, i.e. reduction or complete waiver of loans. Here, centre or state essentially take over the liability of farmers and repay them to the banks. Further, Waivers are mostly selective, i.e. only certain types of loan, categories of farmers or loan sources may qualify. Despite the substantial increase in farm production and productivity over the years, farm indebtedness has not improved much. This idea seems to be bad politics as well as bad economics because it may win the political party some votes but is not durable in the long run. Waiver of loan is a plain action where the credit climate is affected severely. It will be counterproductive not only for the state but for the entire credit market. Reserve Bank of India Governor Urjit Patel has sounded the alarm on state governments waiving farm loans and has called for a consensus to do away with them to avoid damaging the national balance sheet. In present situation, farm loan waivers act only as a temporary solution to the problems of farmers and it will not make them free from issues like decreasing farm income, debt trap or crop failures.

A Quick View of the Characteristics of Indian Agriculture

Indian agriculture is marred by low productivity and fragmented landholdings. 85 per cent of agricultural landholdings in India are less than 5 acres out of which 65 per cent are less than 1 acre. Above 50 per cent of land holdings in India are not having any facility of irrigation. The average agriculture income in India is not sufficient to support the needs of the cultivators. The situation is worsened by the risks faced due to market fluctuations and weather risks. The latest NSS-SAS (national sample survey on situation assessment survey) points out a few other problems in the agriculture sector:

- Almost 15 per cent of farm households have negative return from crop production.
- Although the Non-farm income adds up to 40 per cent of total farmer income access to these is much skewed as 40 per cent of farmers reported negligible income from such sources.

- Apart from these, the most prominent characteristic of Indian agriculture is debt-burden of farmers. Which bring the question, whether loan waivers should be used as a panacea for Indian cultivators? A loan waiver, in the Indian context, implies waiving of loans given to farmers by the Banks. India has a long history of loan waivers.

What Is Farm Loan Waiver?

When there is a poor monsoon or natural calamity, farmers may be unable to repay loans. The rural distress in such situations often prompts States or the Centre to offer relief- reduction or complete waiver of loans. Essentially, the centre or state take over the liability of farmers and repay the banks. Waivers are usually selective- only certain loan types, categories of farmers or loan sources may qualify. For instance, in 2008, crop loans and investment loans were waived for marginal and small farmers (those with less than 2 hectares of land ownership); other farmers were only given a 25 per cent reduction.

Reasons for Such Frequent Loan Waivers in India

- Due to unfavorable climatic conditions that may lead to the failure of crops on a large scale.
- To provide economic relief to the farmers so that they can invest their money and labor for the crops of next season. This is also known as Debt-hang theory, according to which the waiver will facilitate better productivity from farmers in future.
- It might be a part of structural reforms for the bank where the government waives the loan so that the balance sheet of the banks can be improved and they can lend more effectively.
- But it is mostly considered to be a populist step to please the voters before elections.
- Depleting water table levels
- Deteriorating soil quality
- Rising input costs
- Output prices may not be remunerative
- Many small farmers not eligible for bank credit borrow at exorbitant interest rates from private sources

History of Farm Loan Waiver

In 1990, first ever nation-wide farm loan waiver was announced and it cost around Rs. 10,000 crore. In 2008 (nation-wide) , Rs. 52,000 crore was released by the Indian Union government as part of the Agricultural Debt Waiver and Debt Relief Scheme (ADWDRS) which was mainly done to remove the financial indebtedness of the farmers. But it was done before the 2009 general election. In 2014, the Andhra Pradesh government announced a farm loan waiver of Rs. 40,000 crore and Rs. 20,000 crore farm loan waivers was announced in Telangana region. In 2017, Uttar Pradesh announced a farm loan waiver of Rs, 36,000 crore. With state governments move, Maharashtra followed the scheme with a Rs. 34,000 crore waiver.

How Effective Were These Loan Waivers?

2008 nation-wide: CAG audit found that there were serious lapses in the scheme, which included the poor accuracy in identifying the beneficiaries as well as the accuracy of reimbursement claims. Also, a paper by the Indian Council for Research on International Economic Relations stated that the 2008 farm loan waiver lead to three-fold increase in non-performing assets of commercial banks between 2009-2010 and 2012-2013, which made the banks cautious of leading.

2017 UP loan waiver: There has been no evidence of reduction of farmer distress after the waiver. Further, the waiver cost UP government Rs. 36,000 crore which was way more than the state's budget allocation of Rs. 8,000 crore for agriculture.

How Farm Loan Waiver Schemes Impact The Indian Economy:

- The Monetary Policy Committee of the RBI pointed out that the implementation of farm loan waivers across states could hurt the finances of states.
- This will make them throw good money after bad, and stoke inflation

- The culture of loan waivers would create more willful defaulters, disturb the credit discipline of the banking system and impact the economy in the medium and long term.
- Cumulative impact of farm loan waivers is likely to be lower than that of the power-restructuring package, Ujwal Discom Assurance Yojana (UDAY) unless they are extended to all Indian states.
- State wise outstanding farm debt has been estimated by using available break-up (for previous years) of agricultural loans extended by scheduled commercial banks and regional rural banks.
- The estimates thus obtained have been scaled up to the total value of institutional farm loans at Rs. 12.6 trillion.
- The effect of increased public debt will play out over the long run but the increased interest burden due to higher debt will hit state finances immediately.
- Interest payments of states are already quite high and often eclipse their spending on important infrastructure areas such as roads and irrigation.
- The impact on state finances could have been justified had the waivers provided meaningful relief to India's distressed rural economy.
- But, that is unlikely to happen since the poorest farmers in India typically rely on non-institutional sources of credit.
- Farm loans will be transferred from the assets side of banks balance sheets to the liabilities side of government's books as part of the loan waiver scheme.
- Banks might gain in the short run as their loan book gets lighter and they get rid of some non-performing assets.
- Loan waiver schemes disturb loan and credit discipline for the any financial system. Farmers will turn into willful defaulters as they wait for the next loan waiver scheme, which is bad for economy. This results in increasing number of bad loans in banks and moreover the process of waiving off the loans is also another burden on the banks. This may result in banks implementing stricter rules while issuing loans to the farmers, which in turn forces farmers, go to local money lenders.

Role Plays Agriculture Sector in Indian Economy

Though industry has been playing an important role in Indian economy, still the contribution of agriculture in the development of Indian economy cannot be denied.

- Agriculture is the primary source of livelihood for about 58 per cent of Indias population. Gross Value Added by agriculture, forestry and fishing is estimated at Rs. 18.55 lakh crore in FY19 (PE).
- Agriculture supplies raw materials to various agro-based industries like sugar, jute, cotton textile and vanaspati industries. Food processing industries are similarly dependent on agriculture. The Indian food industry is poised for huge growth, increasing its contribution to world food trade every year due to its immense potential for value addition, particularly within the food processing industry. The Indian food and grocery market are the world's sixth largest, with retail contributing 70 per cent of sales. The Indian food processing industry accounts for 32 per cent of the country's total food market, one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. Gross Value Added in manufacturing and Agriculture respectively, 13 per cent of India's exports and 6 per cent of total industrial investment. Plays a vital role in internal and external trade of the country.
- Agriculture plays vital role in generating employment – In India at least two-thirds of the working population earn their living through agricultural works. In India other sectors have failed to generate much of employment opportunity to growing working populations.
- Agriculture makes provision for food for the ever increasing population
- Contribution to capital formation – Since agriculture happens be the largest industry in developing country like India, it can and must play an important role in pushing up the rate of capital formation.
- Right from the First Five Year plan agriculture is considered as the prime revenue collecting sector for the both central and state budgets.

As we see above main characteristics of agriculture in India and important role played by agriculture sector in Indian economy, present situation of this sector is critical in various points of view. So, it would be necessary to talk about the current situation of Agriculture sector in India.

Present Situation of Agriculture Sector:

- The existing yield levels of a majority of crops remains much lower than the world average. The predominant causes are low irrigation, use of low quality seeds, low adoption of improved technology, and knowledge deficit about improved agricultural practices. Close to 53 per cent of cropped area is water stressed. Rainwater management practices and services are resource started. This limits a farmers capacity to undertake multiple cropping and leads to inefficient utilization of land resources.
- Inefficient extension delivery systems have led to the presence of large yield gaps as well. Yield gaps exist at two levels in India. First, there is a gap between best scientific practices and best field practices. The second gap exists between best field practices and average farmer. There exist significant yield gaps both amongst and within states. Yield gaps have been found to exist in even highly productive states like Punjab.
- Demand side factors favors the expansion of areas under fruits and vegetables and livestock products. These enterprises also offer better income.[2]
- The mismatch between the contribution of agriculture to national income and share in employment has remained large and has widened. The manufacturing and service sectors have failed to absorb the excessive workforce in agriculture. Consequently, value addition per worker in agriculture grew slowly and income per farmer never crossed one-third of the income of a non-agriculture worker since the 1980s. The country took 22 years to double farmers income at an annual growth rate of 3.31 per cent during 1993-1994 to 2015-2016; doubling farmers income between 2015-2016 and 2022-2023 will require an annual growth rate of 10.4 per cent in farmers real income.
- Corporate investment in agricultural infrastructure has not exceeded 2 per cent.
- Despite rapid progress, rural India suffers from an infrastructure deficit.
- The lack of an adequate and efficient cold chain infrastructure leads to massive post-harvest losses, estimated at INR 92,561 crore annually.
- Moreover, as a recent report indicates, most existing cold storage are single commodity storage, resulting in their capacities lying idle for up to six months a year. The col chain infrastructure is also unevenly distributed among states. Inadequate cold chain infrastructure hampers India's food exports as well. India has huge export potential, reflected in the fact that its domestic commodity prices were below export parity prices in 72 per cent of cases.

As we take a overview of present situation of Indian agriculture, as an agricultural scholar I want or strictly pointed here that Farm Loan Waiver Scheme is somewhere beneficial to farmers and having some positive points in favor of this scheme. So, let's we see few positive points in favor of Farm Loan Waiver Scheme.

Points In Favor of Farm Loan Waiver Scheme

- In India, results of crops highly depend on monsoons. Farmers invest heavily on crops by taking loans. If the crop fails due to lack of rains or insufficient market demand, farmers will get trapped in debt. Farmer suicides are increasing in India. So, it's a good step to waive farm loans.
- Many farmers borrow money from unofficial moneylenders for high interest rates and get trapped in vicious cycle of debt. Farm loan waiver schemes will divert these farmers to borrow money from banks.
- Agriculture in India is not a good career option yet. Many farmers are leave farming, if they find alternatives. If this situation continues, there will be a severe food scarcity. To prevent this situation, government need to gain the trust of farmers. Farm loan waiver scheme does that.
- Some people argue that it is the taxpayers' money that is bailing the farmers out, and it's like taking someone's money and giving it someone else. It's true that one section of society is the bigger and consistent contributor of taxes, but we should not forget the fact that farmers are also paying indirect taxes by buying goods, equipment etc.

- The very unpredictable or dangerous situations like draught, wet draught, tsunami, bhukamp and COVID – 19 (mahamari) this scheme works and very helpful to the farmers upliftment in this situations. I specially mention here that the situations like above, the cost included in Farm Loan Waiver Scheme is very less, not enough to the farmers welfare. So, please attention towards these situations when farmers and their farm situation become very critical and it may affect their long term calculations and force to them take loans from the banks or any other available sources.

After considering points in against and in favour of Farm Loan Waiver Scheme we must say that "Farm Loan Waiver Scheme Is Temporary Necessity But Not A Permenant Solution" for farmers and agriculture upliftment in India. Because, we have aim, we have policy or scheme but we have far behind in implementation of that particular scheme. Therefore, number of drawbacks of this scheme.

Drawbacks Of Farm Loan Waiver Scheme

- Firstly, it covers only a tiny fraction of farmers.
- It provides only a partial relief to the indebted farmers as about half of the institutional borrowing of a cultivator is for non-farm purposes.
- In many cases, one household has multiple loans either from different sources or in the name of different family members, which entitles it to multiple loan waiving.
- Loan waiving excludes agricultural labourers who are even weaker than cultivators.
- It severely erodes the credit system
- The scheme is prone to serious exclusion and inclusion errors, as evidence by CAG findings in Agricultural Debt Waiver and Debt Relief Scheme,2008.
- Lastly, schemes have serious implications for other developmental expenditure, having much larger multiplier effect on the economy.

Loan waiver as termed by many economists is only a temporary or seasonal relief and the cycle of woes get repeated again for the farmers unless some long-term measures put in place.

What Needs To Be Done: To Double Farmers Income Rather Than Such Schemes Like Farm Loan Waiver

In the longer run, strengthening the repayments capacity of the farmers by improving and stabilizing their income is the only way to keep them out of distress. "The aim should be to make them financially robust so that they do not depend on the loans."

- The long term solution to the problem lies in improving productivity in agriculture through improvement in irrigation, mechanization, availability of quality seeds, fertilizers, pesticides, crop diversification towards high value crops and solving ethical dilemma related to GM crops.
- Secondly, we need to undertake agriculture market reforms to ensure that farmers get reasonable prices for their produce, this includes amendment to state level APMC acts.
- Thirdly, we need to increase the coverage of PM Fasal Bima Yojana so that farmers are guarded against the risk of crop failure.
- Fourthly, there is a need to encourage non farm income avenues like animal husbandry, food processing units, etc.
- Lastly, if we want to finish the gap between laboratory work and actual farm i.e. Lab to Land Programe and form synergy between Agriculture Technology evolved at University level or other Research station or Krishi Vigyan Kendra (KVK) and farmers, to fill the vacant posts in agriculture department whether it is Professor, Scientist, Subject Matter Specialist, Agriculture Officer, etc, at various levels.

CONCLUSION

Here we see that Farm Loan Waiver may give immediate relief to farmers but to overcome the farmer from farm distress or consequences like suicide, we need long term and sustainable solution i.e. Agricultural Reform. Since waivers in India are filled with lack of accountability and lack of proper monitoring reduces the

effectiveness of the loan waivers. This coupled with fact that not all the debt is formal, reduces their effectiveness even more. Since most of the working population of India is dependent on agriculture, loan waiver cannot be avoided in present situation. But forming a proper strategy to reduce farmer's farm distress and then focus to increase their farm income, it will ensure that after giving some time to implementing these strategies, there is no need to give farm loan waiver to farmers and agricultural upliftment in India.

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